

Charter Township of Gaines

Kent County, Michigan

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Year ended December 31, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Charter Township of Gaines' (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net assets increased by \$1,656,010 (2 percent) as a result of this year's activities. Net assets of the governmental activities increased by \$301,428 and net assets of the business-type activities increased by \$1,354,582.
- Of the \$77,441,210 total net assets reported, \$9,745,986 (13 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$622,380, which represents 27 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Township's annual financial report is comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.
 - Fiduciary fund statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2007 and 2006 is also presented.

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Township's basic services are included here, such as fire and police protection and general government. State shared revenue and property taxes finance most of these activities.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's sewer and water systems are reported here as well as its construction code inspection services.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

- *Governmental funds*. Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out and, (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise funds are the same as its business-type activities but provide more detail and additional information, such as cash flows.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The Township's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$77,441,210, an increase of 2 percent compared to the prior year. Of this total, \$67,619,261 is invested in capital assets and \$75,963 is restricted for public works. Consequently, unrestricted net assets were \$9,745,986, or 13 percent of the total.

Condensed financial information
Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Other assets	\$ 2,901,201	\$ 2,525,298	\$ 8,332,728	\$ 10,895,071	\$ 11,233,929	\$ 13,420,369
Capital assets	<u>7,933,926</u>	<u>8,044,580</u>	<u>59,685,335</u>	<u>55,827,199</u>	<u>67,619,261</u>	<u>63,871,779</u>
Total assets	<u>10,835,127</u>	<u>10,569,878</u>	<u>68,018,063</u>	<u>66,722,270</u>	<u>78,853,190</u>	<u>77,292,148</u>
Current liabilities	<u>1,063,773</u>	<u>1,099,952</u>	<u>348,207</u>	<u>406,996</u>	<u>1,411,980</u>	<u>1,506,948</u>
Net assets:						
Invested in capital assets	<u>7,933,926</u>	<u>8,044,580</u>	<u>59,685,335</u>	<u>55,827,199</u>	<u>67,619,261</u>	<u>63,871,779</u>
Restricted	<u>75,963</u>	<u>124,440</u>	<u>-</u>	<u>-</u>	<u>75,963</u>	<u>124,440</u>
Unrestricted	<u>1,761,465</u>	<u>1,300,906</u>	<u>7,984,521</u>	<u>10,488,075</u>	<u>9,745,986</u>	<u>11,788,981</u>
Total net assets	<u>\$ 9,771,354</u>	<u>\$ 9,469,926</u>	<u>\$ 67,669,856</u>	<u>\$ 66,315,274</u>	<u>\$ 77,441,210</u>	<u>\$ 75,785,200</u>

Change in net assets. The Township's total revenues are \$9,564,025. Over 47 percent of the revenues come from charges for services, primarily from sewer and water services. Nearly 15 percent of the total revenues come from state shared revenue while only 8 percent come from property taxes.

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The total cost of all the Township's programs, covering a wide range of services, totaled \$7,908,015. Nearly 64 percent of the Township's costs relate to the provision of utility services. Public safety accounts for approximately 14 percent and general government accounts for approximately 12 percent of the Township's total costs.

Condensed financial information
Changes in Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>	<u>2006</u>
Program revenues:						
Charges for services	\$ 595,139	\$ 579,077	\$ 3,901,276	\$ 3,648,522	\$ 4,496,415	\$ 4,227,599
Operating grants & contributions	13,309	13,361	-	-	13,309	13,361
Capital grants & contributions	74,100	145,525	2,031,726	1,701,045	2,105,826	1,846,570
General revenues:						
Property taxes	743,484	603,960	-	-	743,484	603,960
State shared revenue	1,396,271	1,387,998	-	-	1,396,271	1,387,998
Other	334,805	314,518	473,915	459,136	808,720	773,654
Gains on sales of capital assets	-	86,959	-	-	-	86,959
Total revenues	<u>3,157,108</u>	<u>3,131,398</u>	<u>6,406,917</u>	<u>5,808,703</u>	<u>9,564,025</u>	<u>8,940,101</u>
Expenses:						
Legislative	13,526	11,760	-	-	13,526	11,760
General government	925,794	922,542	-	-	925,794	922,542
Public safety	1,087,730	970,484	-	-	1,087,730	970,484
Public works	481,210	362,338	-	-	481,210	362,338
Community and economic development	132,450	147,865	-	-	132,450	147,865
Health and welfare	47,137	36,289	-	-	47,137	-
Recreation and culture	167,833	43,170	-	-	167,833	43,170
Inspections	-	-	291,261	338,846	291,261	338,846
Sewer	-	-	2,598,095	2,472,248	2,598,095	2,472,248
Water	-	-	2,162,979	1,772,984	2,162,979	1,772,984
Total expenses	<u>2,855,680</u>	<u>2,494,448</u>	<u>5,052,335</u>	<u>4,584,078</u>	<u>7,908,015</u>	<u>7,042,237</u>
Increase in net assets	<u>\$ 301,428</u>	<u>\$ 636,950</u>	<u>\$ 1,354,582</u>	<u>\$ 1,224,625</u>	<u>\$ 1,656,010</u>	<u>\$ 1,897,864</u>

Governmental activities

Governmental activities increased the Township's net assets by \$301,428 in 2007 compared to a \$636,950 increase in 2006. While revenues remained comparable with the prior year, expenses increased by \$361,232 (14 percent) due to increases in operating costs associated with the public safety, public works, and recreation and cultural functions.

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The cost of all governmental activities this year was \$2,855,680. After subtracting the direct charges to those who directly benefited from the programs (\$595,139), and operating and capital grants (\$87,409), the "public benefit" portion covered primarily by property taxes and state revenue sharing, was \$2,173,132.

Business-type activities

Business-type activities increased the Township's net assets by \$1,354,582 in 2007 compared to an increase of \$1,224,625 in 2006. The increase in 2007 can be attributed primarily to developer contributions (\$1,380,000).

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental funds. As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,837,428, an increase of \$412,082 in comparison with the prior year. The increase occurred as a result of a concerted effort to control costs. Of the total fund balances, 96 percent constitutes unreserved fund balance, which is available for spending at the Board's discretion. The remainder of fund balance, in the amount of \$75,963, is reserved to indicate that it is not available for new spending because it is legally restricted for street lighting expenditures.

The General Fund is the chief operating fund of the Township. At the end of the fiscal year, unreserved fund balance was \$622,380, which represents 27 percent of the actual total General Fund expenditures for the current fiscal year. Revenues exceeded expenditures in 2007 by \$675,363 because of the increase in property tax revenues and charges for services, notably tax administration fees. The fund balance increased by only \$175,363 due to a transfer to the Improvement Revolving Fund in the amount of \$500,000.

Proprietary funds. The Sewer Fund experienced an operating loss of \$760,051. However, net assets increased by \$329,516 due to substantial nonoperating revenues totaling \$1,089,567. Net assets were \$38,892,019 at year end while net working capital amounted to \$5,007,854.

The Water Fund experienced an operating loss of \$309,954. However, net assets increased by \$1,106,120 due to substantial nonoperating revenues totaling \$1,416,074. Net assets were \$28,493,145 at year end while net working capital amounted to \$2,128,033.

The operating losses noted above include provisions for depreciation on contributed assets, which are not recoverable from charges for services.

The Building Inspections Fund experienced an operating loss of \$81,054 due to a decrease in operating revenues. Net assets were \$284,692 at year end.

General Fund budgetary highlights

There were no significant differences between the original budget and the final amended budget for expenditures. Revenues were \$265,967 more than anticipated while expenditures were \$416,194 less than the amounts appropriated. These variances resulted in a \$682,161 positive budget variance and a \$175,363 increase in fund balance compared to a budgeted decrease of \$506,798.

Expenditures were \$416,194 less than the amounts appropriated due to the following circumstances:

- Fire protection costs were \$125,893 less than budgeted due to lower than anticipated payroll at the Dutton Fire Department and reimbursements from Byron Township related to its share of certain costs at the Cutlerville Fire Department.
- General administration expenditures were \$84,916 less than anticipated primarily due to lower than anticipated contractual services costs, including legal fees, and staffing changes where positions were temporarily vacant and new employees were hired at lower hourly pay rates.
- Planning and zoning expenditures were \$85,260 less than anticipated primarily because contractual services were postponed until 2008.
- Road improvement costs were \$63,910 less than planned because certain anticipated projects did not take place.

Capital assets and debt administration

Capital assets

The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2007, amounts to \$67,619,261 (net of accumulated depreciation). This investment includes a broad range of assets, including buildings, fire equipment, and sewer and water facilities. The increase in the Township's net investment in capital assets for the current fiscal year was \$3,747,482.

Major capital asset events during the current fiscal year included the following:

- Continued expansion of the sewer and water systems totaling \$5,267,200.

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

Economic condition and outlook

We were able to end 2007 on a positive note with an increase in undesignated fund balance to a more comfortable level of 27% of expenditures. The economy of the state filters down to the local level by reducing or holding flat revenue sharing which is the life blood of the Township budget. Throughout the entire budget, ever increasing costs have limited opportunities for the Township to increase spending for public safety or other related services. We were able to complete the first phase of trails plus a small parking area in Prairie Wolf Park. We participated with Byron Township by contributing 50% of the local match monies necessary to capture federal funds in order to complete the second phase of the Vision for Division streetscape project. I have not taken any request to the Township Board that would dramatically reduce the unrestricted reserves; however, we may tap into those reserves in 2008 by possibly purchasing two new fire apparatus replacing three outdated fire units. The cost of one of the purchases will be shared with Byron Township. Our staff continues to be very frugal with most departments ending the year under budget. Currently, our fund balance is reasonably stable for day to day operations. As demands increase in the public safety sector, it is imperative that future funding needs be addressed. Approximately one third of our budget is earmarked for public safety and that amount does not include replacement of fire apparatus or an increase public safety personnel. I would like to paint a brighter outlook but until the economy on the state and local level improves we will not be able to fund additional programs or increase public safety personnel.

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Contacting the Township's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Donald Hilton, Township Supervisor
Charter Township of Gaines
8555 Kalamazoo Avenue, SE
Caledonia, MI 49316

Phone: (616) 698-6640

INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Charter Township of Gaines, Michigan**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Gaines, Michigan, as of December 31, 2007, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Gaines, Michigan, as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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Board of Trustees
Charter Township of Gaines, Michigan
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Gaines, Michigan's basic financial statements. The accompanying supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

May 9, 2008

BASIC FINANCIAL STATEMENTS

Charter Township of Gaines
STATEMENT OF NET ASSETS
December 31, 2007

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 1,755,336	\$ 5,012,084	\$ 6,767,420
Investments	55,803	1,701,690	1,757,493
Receivables	<u>1,090,062</u>	<u>1,055,012</u>	<u>2,145,074</u>
Total current assets	<u>2,901,201</u>	<u>7,768,786</u>	<u>10,669,987</u>
Noncurrent assets:			
Receivables	-	563,942	563,942
Capital assets not being depreciated	1,669,991	5,559,251	7,229,242
Capital assets, net of accumulated depreciation	<u>6,263,935</u>	<u>54,126,084</u>	<u>60,390,019</u>
Total noncurrent assets	<u>7,933,926</u>	<u>60,249,277</u>	<u>68,183,203</u>
Total assets	<u>10,835,127</u>	<u>68,018,063</u>	<u>78,853,190</u>
LIABILITIES			
Current liabilities:			
Payables	205,367	348,207	553,574
Deferred revenue	<u>858,406</u>	<u>-</u>	<u>858,406</u>
Total current liabilities	<u>1,063,773</u>	<u>348,207</u>	<u>1,411,980</u>
NET ASSETS			
Invested in capital assets	7,933,926	59,685,335	67,619,261
Restricted for public works	75,963	-	75,963
Unrestricted	<u>1,761,465</u>	<u>7,984,521</u>	<u>9,745,986</u>
Total net assets	<u>\$ 9,771,354</u>	<u>\$ 67,669,856</u>	<u>\$ 77,441,210</u>

See notes to the financial statements

Charter Township of Gaines
STATEMENT OF ACTIVITIES
Year ended December 31, 2007

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Governmental activities:				
Legislative	\$ 13,526	\$ -	\$ -	\$ -
General government	925,794	428,744	-	-
Public safety	1,087,730	-	-	-
Public works	481,210	155,610	13,309	74,100
Community and economic development	132,450	10,785	-	-
Health and welfare	47,137	-	-	-
Recreation and culture	167,833	-	-	-
Total governmental activities	<u>2,855,680</u>	<u>595,139</u>	<u>13,309</u>	<u>74,100</u>
Business-type activities:				
Sewer	2,598,095	1,838,044	-	801,858
Water	2,162,979	1,853,025	-	1,229,868
Inspections	291,261	210,207	-	-
Total business-type activities	<u>5,052,335</u>	<u>3,901,276</u>	<u>-</u>	<u>2,031,726</u>
Totals	<u>\$ 7,908,015</u>	<u>\$ 4,496,415</u>	<u>\$ 13,309</u>	<u>\$ 2,105,826</u>

General revenues:
Property taxes
State shared revenue
Cable franchise fees
Interest income

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
\$ (13,526)		\$ (13,526)
(497,050)		(497,050)
(1,087,730)		(1,087,730)
(238,191)		(238,191)
(121,665)		(121,665)
(47,137)		(47,137)
<u>(167,833)</u>		<u>(167,833)</u>
 <u>(2,173,132)</u>		 <u>(2,173,132)</u>
	\$ 41,807	41,807
	919,914	919,914
	<u>(81,054)</u>	<u>(81,054)</u>
	 <u>880,667</u>	 <u>880,667</u>
 <u>(2,173,132)</u>	 <u>880,667</u>	 <u>(1,292,465)</u>
743,484	-	743,484
1,396,271	-	1,396,271
203,364	-	203,364
<u>131,441</u>	<u>473,915</u>	<u>605,356</u>
 <u>2,474,560</u>	 <u>473,915</u>	 <u>2,948,475</u>
301,428	1,354,582	1,656,010
<u>9,469,926</u>	<u>66,315,274</u>	<u>75,785,200</u>
 <u>\$ 9,771,354</u>	 <u>\$ 67,669,856</u>	 <u>\$ 77,441,210</u>

See notes to the financial statements

Charter Township of Gaines
BALANCE SHEET - governmental funds
December 31, 2007

	<u>General</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS			
Cash	\$ 553,339	\$ 1,201,997	\$ 1,755,336
Investments	55,803	-	55,803
Receivables	<u>1,039,362</u>	<u>50,700</u>	<u>1,090,062</u>
Total assets	<u>\$ 1,648,504</u>	<u>\$ 1,252,697</u>	<u>\$ 2,901,201</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables	\$ 91,755	\$ 113,612	\$ 205,367
Deferred revenue	<u>858,406</u>	<u>-</u>	<u>858,406</u>
Total liabilities	<u>950,161</u>	<u>113,612</u>	<u>1,063,773</u>
Fund balances:			
Reserved for street lighting	75,963	-	75,963
Unreserved, undesignated	622,380	-	622,380
Unreserved, undesignated reported in nonmajor special revenue funds	<u>-</u>	<u>1,139,085</u>	<u>1,139,085</u>
Total fund balances	<u>698,343</u>	<u>1,139,085</u>	<u>1,837,428</u>
Total liabilities and fund balances	<u>\$ 1,648,504</u>	<u>\$ 1,252,697</u>	<u>\$ 2,901,201</u>

Total fund balances - all governmental funds \$ 1,837,428

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds 7,933,926

Net assets of *governmental activities* \$ 9,771,354

See notes to the financial statements

Charter Township of Gaines**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds**

Year ended December 31, 2007

	<u>General</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES			
Property taxes	\$ 1,046,289	\$ -	\$ 1,046,289
State grants	1,409,580	-	1,409,580
Contribution from local unit	-	65,000	65,000
Charges for services	241,284	-	241,284
Interest and rentals	125,390	66,891	192,281
Other:			
Special assessment - street lighting	155,610	-	155,610
Miscellaneous	37,964	9,100	47,064
Total revenues	<u>3,016,117</u>	<u>140,991</u>	<u>3,157,108</u>
EXPENDITURES			
Legislative	13,526	-	13,526
General government	764,714	-	764,714
Public safety	977,672	-	977,672
Public works	355,159	204,323	559,482
Community and economic development	130,170	-	130,170
Health and welfare	47,137	-	47,137
Recreation and culture	41,627	122,986	164,613
Capital outlay	10,749	76,963	87,712
Total expenditures	<u>2,340,754</u>	<u>404,272</u>	<u>2,745,026</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>675,363</u>	<u>(263,281)</u>	<u>412,082</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	715,000	715,000
Transfers out	(500,000)	(215,000)	(715,000)
Total other financing sources (uses)	<u>(500,000)</u>	<u>500,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	175,363	236,719	412,082
FUND BALANCES - BEGINNING	<u>522,980</u>	<u>902,366</u>	<u>1,425,346</u>
FUND BALANCES - ENDING	<u>\$ 698,343</u>	<u>\$ 1,139,085</u>	<u>\$ 1,837,428</u>

See notes to the financial statements

Charter Township of Gaines

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - *governmental funds* (Continued)**

Year ended December 31, 2007

Reconciliation of the statement of revenues, expenditures, and changes in
fund balances to the statement of activities.

Net change in fund balances - total governmental funds	\$ 412,082
--	------------

Amounts reported for *governmental activities* in the statement of activities
(page 6) are different because:

Capital assets:

Assets acquired	184,622
Provision for depreciation	(294,687)
Basis of dispositions	<u>(589)</u>

Change in net assets of <i>governmental activities</i>	<u>\$ 301,428</u>
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See notes to the financial statements

Charter Township of Gaines
STATEMENT OF NET ASSETS - proprietary funds
December 31, 2007

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
ASSETS				
Current assets:				
Cash	\$ 3,042,425	\$ 1,684,967	\$ 284,692	\$ 5,012,084
Investments	1,599,204	102,486	-	1,701,690
Receivables	<u>527,180</u>	<u>527,832</u>	<u>-</u>	<u>1,055,012</u>
Total current assets	<u>5,168,809</u>	<u>2,315,285</u>	<u>284,692</u>	<u>7,768,786</u>
Noncurrent assets:				
Receivables	94,090	469,852	-	563,942
Capital assets not being depreciated	671,833	4,887,418		5,559,251
Capital assets, net of accumulated depreciation	<u>33,118,242</u>	<u>21,007,842</u>	<u>-</u>	<u>54,126,084</u>
Total noncurrent assets	<u>33,884,165</u>	<u>26,365,112</u>	<u>-</u>	<u>60,249,277</u>
Total assets	<u>39,052,974</u>	<u>28,680,397</u>	<u>284,692</u>	<u>68,018,063</u>
LIABILITIES				
Current liabilities - payables	<u>160,955</u>	<u>187,252</u>	<u>-</u>	<u>348,207</u>
NET ASSETS				
Invested in capital assets	33,790,075	25,895,260	-	59,685,335
Unrestricted	<u>5,101,944</u>	<u>2,597,885</u>	<u>284,692</u>	<u>7,984,521</u>
Total net assets	<u>\$ 38,892,019</u>	<u>\$ 28,493,145</u>	<u>\$ 284,692</u>	<u>\$ 67,669,856</u>

See notes to the financial statements

Charter Township of Gaines**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND****NET ASSETS - proprietary funds**

Year ended December 31, 2007

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
OPERATING REVENUES				
Charges for services	\$ 1,791,539	\$ 1,746,438	\$ 210,207	\$ 3,748,184
Other	<u>46,505</u>	<u>106,587</u>	<u>-</u>	<u>153,092</u>
Total operating revenues	<u>1,838,044</u>	<u>1,853,025</u>	<u>210,207</u>	<u>3,901,276</u>
OPERATING EXPENSES				
Personnel costs	52,274	52,274	157,619	262,167
Sewage treatment charges	1,422,778	-	-	1,422,778
Water charges	-	1,106,493	-	1,106,493
System operation and maintenance	192,965	400,616	-	593,581
Professional services	33,486	52,690	-	86,176
Miscellaneous	16,439	21,995	133,642	172,076
Depreciation	<u>880,153</u>	<u>528,911</u>	<u>-</u>	<u>1,409,064</u>
Total operating expenses	<u>2,598,095</u>	<u>2,162,979</u>	<u>291,261</u>	<u>5,052,335</u>
OPERATING LOSS	<u>(760,051)</u>	<u>(309,954)</u>	<u>(81,054)</u>	<u>(1,151,059)</u>
NONOPERATING REVENUES (EXPENSES)				
Capital contributions	730,000	650,000	-	1,380,000
Trunkage and availability fees	54,968	162,670	-	217,638
Interest revenue	281,061	181,893	-	462,954
Special assessments	16,890	417,198	-	434,088
Special assessment interest	<u>6,648</u>	<u>4,313</u>	<u>-</u>	<u>10,961</u>
Total nonoperating revenues	<u>1,089,567</u>	<u>1,416,074</u>	<u>-</u>	<u>2,505,641</u>
CHANGE IN NET ASSETS	329,516	1,106,120	(81,054)	1,354,582
NET ASSETS - BEGINNING	<u>38,562,503</u>	<u>27,387,025</u>	<u>365,746</u>	<u>66,315,274</u>
NET ASSETS - ENDING	<u>\$ 38,892,019</u>	<u>\$ 28,493,145</u>	<u>\$ 284,692</u>	<u>\$ 67,669,856</u>

See notes to the financial statements

Charter Township of Gaines
STATEMENT OF CASH FLOWS - proprietary funds
Year ended December 31, 2007

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING				
Receipts from customers	\$ 1,794,008	\$ 2,109,745	\$ 210,207	\$ 4,113,960
Payments to vendors and suppliers	(1,652,131)	(1,465,673)	(133,642)	(3,251,446)
Payments to employees	(52,274)	(52,274)	(157,619)	(262,167)
Net cash provided by (used in) operating activities	<u>89,603</u>	<u>591,798</u>	<u>(81,054)</u>	<u>600,347</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Increase in amount due from other units	<u>(38,530)</u>	<u>(64,647)</u>	<u>-</u>	<u>(103,177)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Collections of assessments receivable	45,330	27,203	-	72,533
Special assessment interest	6,648	4,313	-	10,961
Trunkage and availability fees	55,318	163,020	-	218,338
Decrease in accounts payable	(8,440)	(242,117)	-	(250,557)
Acquisition of capital assets	<u>(626,082)</u>	<u>(3,135,705)</u>	<u>-</u>	<u>(3,761,787)</u>
Net cash used in capital and related financing activities	<u>(527,226)</u>	<u>(3,183,286)</u>	<u>-</u>	<u>(3,710,512)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net change in investments	64,001	2,325,520	-	2,389,521
Interest received	<u>300,361</u>	<u>202,193</u>	<u>-</u>	<u>502,554</u>
Net cash provided by investing activities	<u>364,362</u>	<u>2,527,713</u>	<u>-</u>	<u>2,892,075</u>
NET DECREASE IN CASH	<u>(111,791)</u>	<u>(128,422)</u>	<u>(81,054)</u>	<u>(321,267)</u>
CASH - BEGINNING	<u>3,154,216</u>	<u>1,813,389</u>	<u>365,746</u>	<u>5,333,351</u>
CASH - ENDING	<u>\$ 3,042,425</u>	<u>\$ 1,684,967</u>	<u>\$ 284,692</u>	<u>\$ 5,012,084</u>

See notes to the financial statements

Charter Township of Gaines
STATEMENT OF CASH FLOWS - proprietary funds (Continued)
Year ended December 31, 2007

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
Noncash capital and related financing activities:				
Acquisition of capital assets	\$ (1,372,033)	\$ (3,895,167)	\$ -	\$ (5,267,200)
Less increase in accounts payable	15,951	109,462	-	125,413
Less capital assets contributed by developers	<u>730,000</u>	<u>650,000</u>	<u>-</u>	<u>1,380,000</u>
Net cash used	<u>\$ (626,082)</u>	<u>\$ (3,135,705)</u>	<u>\$ -</u>	<u>\$ (3,761,787)</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	\$ (760,051)	\$ (309,954)	\$ (81,054)	\$ (1,151,059)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	880,153	528,911	-	1,409,064
(Increase) decrease in receivables	(44,036)	256,720	-	212,684
Decrease in prepaids	-	63,304	-	63,304
Increase in payables	<u>13,537</u>	<u>52,817</u>	<u>-</u>	<u>66,354</u>
Net cash provided by (used in) operating activities	<u>\$ 89,603</u>	<u>\$ 591,798</u>	<u>\$ (81,054)</u>	<u>\$ 600,347</u>

See notes to the financial statements

Charter Township of Gaines

STATEMENT OF FIDUCIARY NET ASSETS - *agency funds*

December 31, 2007

ASSETS

Cash	\$ 2,365,363
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LIABILITIES

Payables	\$ 219,396
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Due to other governmental units	<u>2,145,967</u>
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Total liabilities	<u>\$ 2,365,363</u>
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See notes to the financial statements

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Gaines, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental fund:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Township reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the Township's sewage collection systems.

The Water Fund accounts for the activities of the Township's water distribution system.

The Building Inspections Fund accounts for the activities of the Township's construction code enforcement.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

The Township reports two fiduciary funds, the Agency Fund and the Tax Collection Fund, which account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.

iv) Capital assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning January 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 60 years
Equipment	3 - 5 years
Vehicles	3 - 5 years
Sewer and water systems	50 years

v) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) Deferred revenue - Deferred revenue currently consists of resources received but not yet earned. (See vii below)

vii) Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, taxes have been deferred from recognition as revenue until the following year.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The following schedule sets forth the significant budget variance:

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Township Improvement Revolving	Other financing use	\$ -	\$ 215,000	\$ (215,000)
	Public works	-	53,792	(53,792)
	Capital outlay	-	76,963	(76,963)
Vision for Division	Public works	140,000	150,531	(10,531)
Trails	Recreation and culture	-	122,986	(122,986)

NOTE 3 - CASH AND INVESTMENTS:

The Township's deposits and investments were reported in the basic financial statements as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	\$ 1,755,336	\$ 5,012,084	\$2,365,363	\$ 9,132,783
Investments	<u>55,803</u>	<u>1,701,690</u>	<u>-</u>	<u>1,757,493</u>
	<u>\$ 1,811,139</u>	<u>\$ 6,713,774</u>	<u>\$2,365,363</u>	<u>\$10,890,276</u>

Deposits:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. At December 31, 2007, \$8,812,129 of the Township's bank balances of \$9,605,209 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Investments:

State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; e) mutual funds; and f) investment pools organized under the local government investment pool act. The Township's investments consist of holdings in the Kent County Investment Pool, which are nonrisk-categorized qualifying investments, and are carried at cost, which approximates fair market value.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the Township's funds are as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Property taxes</i>	<i>Inter- governmental</i>	<i>Interest</i>	<i>Special assessments</i>	<i>Totals</i>
Governmental activities:						
General Fund	\$ 49,213	\$484,622	\$ 505,527	\$ -	\$ -	\$ 1,039,362
Nonmajor governmental	-	-	35,000	15,700	-	50,700
	<u>\$ 49,213</u>	<u>\$484,622</u>	<u>\$ 540,527</u>	<u>\$ 15,700</u>	<u>\$ -</u>	<u>\$ 1,090,062</u>
Business-type activities:						
Sewer Fund	\$ 435,238	\$ -	\$ 38,530	\$ 28,800	\$ 118,702	\$ 621,270
Water Fund	399,868	-	64,647	14,300	518,869	997,684
Total business-type activities	<u>\$ 835,106</u>	<u>\$ -</u>	<u>\$ 103,177</u>	<u>\$ 43,100</u>	<u>\$ 637,571</u>	<u>\$ 1,618,954</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 563,942</u>	<u>\$ 563,942</u>

All receivables are considered fully collectible.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2007, was as follows:

	<i><u>Beginning balance</u></i>	<i><u>Increases</u></i>	<i><u>Decreases</u></i>	<i><u>Ending balance</u></i>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$1,669,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,669,991</u>
Capital assets being depreciated:				
Buildings and infrastructure	<u>5,541,512</u>	<u>43,150</u>	<u>-</u>	<u>5,584,662</u>
Equipment and vehicles	<u>2,586,481</u>	<u>141,472</u>	<u>(4,077)</u>	<u>2,723,876</u>
Subtotal	<u>8,127,993</u>	<u>184,622</u>	<u>(4,077)</u>	<u>8,308,538</u>
Less accumulated depreciation:				
Buildings and infrastructure	<u>(594,397)</u>	<u>(149,084)</u>	<u>-</u>	<u>(743,481)</u>
Equipment and vehicles	<u>(1,159,007)</u>	<u>(145,603)</u>	<u>3,488</u>	<u>(1,301,122)</u>
Subtotal	<u>(1,753,404)</u>	<u>(294,687)</u>	<u>3,488</u>	<u>(2,044,603)</u>
Total capital assets being depreciated, net	<u>6,374,589</u>	<u>(110,065)</u>	<u>(589)</u>	<u>6,263,935</u>
Governmental activities capital assets, net	<u>\$8,044,580</u>	<u>\$ (110,065)</u>	<u>\$ (589)</u>	<u>\$7,933,926</u>

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<i><u>Beginning balance</u></i>	<i><u>Increases</u></i>	<i><u>Decreases</u></i>	<i><u>Ending balance</u></i>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	<u>\$ 1,684,981</u>	<u>\$3,874,270</u>	<u>\$ -</u>	<u>\$ 5,559,251</u>
Subtotal	<u>1,684,981</u>	<u>3,874,270</u>	<u>-</u>	<u>5,559,251</u>
Capital assets being depreciated:				
Sewer system	43,642,642	730,350	-	44,372,992
Water system	26,114,411	662,580	-	26,776,991
Office equipment	<u>38,726</u>	<u>-</u>	<u>-</u>	<u>38,726</u>
Subtotal	<u>69,795,779</u>	<u>1,392,930</u>	<u>-</u>	<u>71,188,709</u>
Less accumulated depreciation:				
Sewer system	(10,374,597)	(880,153)	-	(11,254,750)
Water system	(5,240,238)	(528,911)	-	(5,769,149)
Office equipment	<u>(38,726)</u>	<u>-</u>	<u>-</u>	<u>(38,726)</u>
Subtotal	<u>(15,653,561)</u>	<u>(1,409,064)</u>	<u>-</u>	<u>(17,062,625)</u>
Total capital assets being depreciated, net	<u>54,142,218</u>	<u>(16,134)</u>	<u>-</u>	<u>54,126,084</u>
Business-type activities capital assets, net	<u>\$55,827,199</u>	<u>\$3,858,136</u>	<u>\$ -</u>	<u>\$59,685,335</u>

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 158,943
Public safety	110,058
Public works	20,187
Community and economic development	2,279
Recreation and culture	<u>3,220</u>
Total governmental activities	<u>\$ 294,687</u>

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - PAYABLES:

Payables as of year end for the Township's funds are as follows:

	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Totals</u>
Governmental activities:			
General	\$ 69,431	\$ 22,324	\$ 91,755
Nonmajor governmental	-	113,612	113,612
Total governmental activities	<u>\$ 69,431</u>	<u>\$ 135,936</u>	<u>\$ 205,367</u>
Business-type activities:			
Sewer	\$ 15,951	\$ 145,004	\$ 160,955
Water	110,704	76,548	187,252
Total business-type activities	<u>\$ 126,655</u>	<u>\$ 221,552</u>	<u>\$ 348,207</u>

NOTE 7 - INTERFUND TRANSFERS:

The interfund transfers for the year ended December 31, 2007, are as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Township Improvement Revolving	<u>\$ 500,000</u>	General	<u>\$ 500,000</u>
Trails	150,000		
Vision For Division	<u>65,000</u>		
	<u>215,000</u>	Township Improvement Revolving	<u>215,000</u>
Totals	<u>\$ 715,000</u>		<u>\$ 715,000</u>

These transfers moved unrestricted revenues of the General Fund and the Township Improvement Revolving Fund, to certain nonmajor governmental funds to finance capital acquisitions, trail development, and street improvements.

NOTE 8 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - DEFINED CONTRIBUTION PENSION PLANS:

The Township maintains two separate defined contribution pension plans. The first plan covers all full time employees (over 20 hours per week) and Township Trustees. The Township contributes 10% of covered payroll to this plan on behalf of qualifying employees. All costs associated with the plan are paid or accrued currently. Township contributions for the year ended December 31, 2007, totaled \$73,249.

The second Township pension plan covers volunteer firemen and planning commission and zoning board members. The Township contributes 3.75% of covered payroll to this plan on behalf of qualifying employees, with an equal percentage contributed by all covered employees. Township contributions for the year ended December 31, 2007, totaled \$25,075.

The Township is not a trustee of these plans, nor is the Township responsible for investment management of plan assets.

NOTE 10 - JOINT VENTURE:

Byron-Gaines Utility Authority:

The Township is a member of the Byron-Gaines Utility Authority, a joint venture of the Townships of Byron and Gaines. The administrative board of the Authority consists of members appointed by each participating unit. The Authority was formed to jointly provide water and sewer services within the combined service area, which encompasses the participating municipalities. During the year ended December 31, 2007, the Township contributed \$602,808 as its proportionate share of the Authority's capital costs and operating expenses.

NOTE 11 - COMMITMENTS:

At December 31, 2007, the Township had contractual commitments of approximately \$10,000 associated with finalizing construction projects in the utility funds. These projects will be completed in 2008 and will be funded by available resources of the corresponding fund.

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Gaines**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended December 31, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 927,000	\$ 927,000	\$ 1,046,289	\$ 119,289
State grants	1,422,000	1,422,000	1,409,580	(12,420)
Charges for services	143,850	143,850	241,284	97,434
Interest and rentals	111,600	111,600	125,390	13,790
Other:				
Special assessment - street lighting	120,000	120,000	155,610	35,610
Miscellaneous	25,700	25,700	37,964	12,264
 Total revenues	<u>2,750,150</u>	<u>2,750,150</u>	<u>3,016,117</u>	<u>265,967</u>
 EXPENDITURES				
Legislative	<u>12,812</u>	<u>12,812</u>	<u>13,526</u>	<u>(714)</u>
 General government:				
Supervisor	141,235	141,235	134,977	6,258
Elections	4,930	4,930	-	4,930
Assessor	134,671	134,671	131,061	3,610
Clerk	110,991	110,991	106,768	4,223
Board of review	2,828	2,828	2,268	560
Treasurer	110,965	110,965	107,073	3,892
Building and grounds	146,795	146,795	133,974	12,821
Cemetery	41,540	41,540	35,240	6,300
General administration	198,269	198,269	113,353	84,916
 Total general government	<u>892,224</u>	<u>892,224</u>	<u>764,714</u>	<u>127,510</u>
 Public safety:				
Police protection	342,000	342,000	407,394	(65,394)
Cutlerville Fire Department	339,225	339,225	316,375	22,850
Dutton Fire Department	356,946	356,946	253,903	103,043
 Total public safety	<u>1,038,171</u>	<u>1,038,171</u>	<u>977,672</u>	<u>60,499</u>

Charter Township of Gaines

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended December 31, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Public works:				
Engineering	133,743	133,743	127,827	5,916
Road improvements	120,000	120,000	56,090	63,910
Street lights	120,000	120,000	126,387	(6,387)
Drains	41,954	41,954	33,355	8,599
Hydrant rental	10,950	10,950	11,500	(550)
Total public works	<u>426,647</u>	<u>426,647</u>	<u>355,159</u>	<u>71,488</u>
Community and economic development - planning and zoning	<u>\$ 215,430</u>	<u>\$ 215,430</u>	<u>\$ 130,170</u>	<u>\$ 85,260</u>
Health and welfare - public transportation	<u>50,478</u>	<u>50,478</u>	<u>47,137</u>	<u>3,341</u>
Recreation and culture:				
Parks	8,706	8,706	4,191	4,515
Library	<u>36,250</u>	<u>36,250</u>	<u>37,436</u>	<u>(1,186)</u>
Total recreation and culture	<u>44,956</u>	<u>44,956</u>	<u>41,627</u>	<u>3,329</u>
Capital outlay	<u>76,230</u>	<u>76,230</u>	<u>10,749</u>	<u>65,481</u>
Total expenditures	<u>2,756,948</u>	<u>2,756,948</u>	<u>2,340,754</u>	<u>416,194</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(6,798)</u>	<u>(6,798)</u>	<u>675,363</u>	<u>682,161</u>
OTHER FINANCING USES				
Transfers out	<u>-</u>	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(6,798)</u>	<u>(506,798)</u>	<u>175,363</u>	<u>682,161</u>
FUND BALANCES - BEGINNING	<u>522,980</u>	<u>522,980</u>	<u>522,980</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 516,182</u>	<u>\$ 16,182</u>	<u>\$ 698,343</u>	<u>\$ 682,161</u>

SUPPLEMENTARY INFORMATION

Charter Township of Gaines
COMBINING BALANCE SHEET - nonmajor governmental funds
December 31, 2007

	<u>Special revenue funds</u>			<u>Total nonmajor governmental funds</u>
	<u>Township Improvement Revolving</u>	<u>Vision For Division</u>	<u>Trails</u>	
ASSETS				
Cash	\$ 1,026,210	\$ 87,092	\$ 88,695	\$ 1,201,997
Receivables	<u>15,700</u>	<u>35,000</u>	<u>-</u>	<u>50,700</u>
Total assets	<u>\$ 1,041,910</u>	<u>\$ 122,092</u>	<u>\$ 88,695</u>	<u>\$ 1,252,697</u>
LIABILITIES AND FUND BALANCES				
Liabilities - payables	\$ -	\$ 113,612	\$ -	113,612
Fund balances - unreserved, undesignated	<u>1,041,910</u>	<u>8,480</u>	<u>88,695</u>	<u>1,139,085</u>
Total liabilities and fund balances	<u>\$ 1,041,910</u>	<u>\$ 122,092</u>	<u>\$ 88,695</u>	<u>\$ 1,252,697</u>

Charter Township of Gaines**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds**

Year ended December 31, 2007

	Special revenue funds			Total nonmajor governmental funds
	Township Improvement Revolving	Vision For Division	Trails	
REVENUES				
Contribution from local unit	\$ -	\$ 65,000	\$ -	\$ 65,000
Interest	62,999	576	3,316	66,891
Other - private contributions	-	8,700	400	9,100
Total revenues	62,999	74,276	3,716	140,991
EXPENDITURES				
Public works	53,792	150,531	-	204,323
Recreation and culture	-	-	122,986	122,986
Capital outlay	76,963	-	-	76,963
Total expenditures	130,755	150,531	122,986	404,272
DEFICIENCY OF REVENUES OVER EXPENDITURES	(67,756)	(76,255)	(119,270)	(263,281)
OTHER FINANCING SOURCES (USES)				
Transfers in	500,000	65,000	150,000	715,000
Transfers out	(215,000)	-	-	(215,000)
Total other financing sources	285,000	65,000	150,000	500,000
NET CHANGE IN FUND BALANCES	217,244	(11,255)	30,730	236,719
FUND BALANCES - BEGINNING	824,666	19,735	57,965	902,366
FUND BALANCES - ENDING	\$ 1,041,910	\$ 8,480	\$ 88,695	\$ 1,139,085

May 9, 2008

To the Board of Trustees
Charter Township of Gaines

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Gaines for the year ended December 31, 2007, and have issued our report thereon dated May 9, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 29, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Charter Township of Gaines are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Charter Township of Gaines during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.



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Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Township's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended December 31, 2007.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Charter Township of Gaines' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the Charter Township of Gaines as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered

the Charter Township of Gaines' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Township has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The Township has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Board of Trustees of the Charter Township of Gaines and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.